

Message Text

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16

ACTION EB-11

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FM AMEMBASSY COLOMBO

TO AMEMBASSY BANGKOK

INFO AMEMBASSY DJAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SAIGON

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

SECSTATE WASHDC 9333

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E. O. 11652: N/ A

TAGS: ELAB, EGEN, CE

SUBJ: GOVERNMENT REGULATION OF FOREIGN INVESTMENT IN SRI LANKA

REF: BANGKOK 4051

1. SUMMARY: SUBSTANTIAL RESTRICTIONS EXIST ON FOREIGN INVESTMENT IN SRI LANKA, PARTICULARLY IN TRADITIONAL EXPORT AREAS. WHITE PAPER PROMULGATED 1972 TO ENCOURAGE FOREIGN INVESTMENT IN DEVELOPMENT OF NON- TRADITIONAL EXPORT SECTOR HAS NOT STIMULATED BUSINESS INTEREST. END SUMMARY

2. SINCE LATE 1950' S CEYLONIZATION OF LOCALLY BASED FOREIGN ENTERPRISES HAS CONSTITUTED IMPORTANT POINT IN SUCCESSIVE GOVERNMENTS PROGRAMS. IMPLEMENTATION, HOWEVER, HAS BEEN UNEVEN IN PACE. UNTIL 1960 MOST STERLING COMPANIES, CONSTITUTING THE
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BACKBONE OF TEA EXPORT INDUSTRY, WERE INFORMALLY IGNORED. FROM 1960 TO 1965, UNDER FIRST GOVT OF PRIME MINISTER MRS BANDARANAIKE, CONVERSION OF STERLING COMPANIES WAS ACCELERATED AND CEYLONIZATION OF STAFFS OF OTHER COMPANIES WAS EMPHASIZED. UNDER PRIME MINISTER DUDLEY SENANAYAKE (1965-1970) CEYLONIZATION OF STAFFS CONTINUED, BUT PACE DECLINED. SINCE 1970 PRESSURE ON REMAINING FOREIGN FIRMS TO ACCEPT FULL CEYLONIZATION OF STAFFS ELDS AND INSTITUTIONS.

THIS MESSAGE, AND A SEPARATE CABLE RELATED TO SPECIAL COMMODITY ARRANGEMENTS SUMMARIZE KEY ASPECTS OF THE LENGTHY PORTION OF THE COMMISSION PAPER DEVOTED TO TRADE. AS REPORTED BELOW THE COMMISSION HAS AGAIN ATTEMPTED TO JUSTIFY THE FREE TRADE AREA APPROACH TO ARRANGEMENTS BETWEEN THE COMMUNITY AND ELIGIBLE AFRICAN COUNTRIES. INEVITABLY THIS INVOLVES A DISCUSSION OF THE REVERSE PREFERENCES ISSUE. IN BOTH CASES THE COMMISSION LINE CLOSELY PARALLELS THAT TAKEN BY COMMISSIONER DENIAU DURING THE RECENT US- EC CONSULTATIONS (REFTEL B). THE FRENCH LANGUAGE TEXT OF THE FULL REPORT IS BEING POUCHED TO THE DEPARTMENT. END SUMMARY.

2. IN ITS INITIAL PAPER DESCRIBING THE FORTHCOMING NEGOTIATIONS WITH THE PRESENT AFRICAN ASSOCIATES AND COMMONWEALTH ASSOCIABLES THE COMMISSION HAS AGAIN CONFIRMED ITS ATTACHMENT TO THE FREE TRADE AREA APPROACH TO RELATIONS BETWEEN THE COMMUNITY AND THESE COUNTRIES. THIS APPROACH IS JUSTIFIED ON SEVERAL GROUNDS:

(1) FROM A POLITICAL POINT OF VIEW IT IS SEEN AS SAFEGUARDING THE CONTRACTUAL NATURE OF THE ASSOCIATION. THE COMMISSION CLAIMS THAT OTHER SOLUTIONS WOULD ACCENTUATE THE UNILATERAL AND PRECARIOUS CHARACTER OF TRADE RELATIONS BETWEEN THE LIMITED OFFICIAL USE

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COMMUNITY AND ITS ASSOCIATES, WHEREAS THE PRESENT FREE TRADE ARRANGEMENTS DESPITE THE ECONOMIC INEQUALITY OF THE PARTNERS IS BASED ON A SYSTEM OF MUTUAL PARITY AND SOLIDARITY. THESE CHARACTERISTICS DISTINGUISH EC ASSOCIATION POLICY FROM OTHER ASPECTS OF ITS POLICY TOWARD LDCS SUCH AS GPS WHICH IS BASED ON THE AUTONOMOUS DECISION OF THE COMMUNITY.

(2) THE COMMUNITY HAS BEEN, AND REMAINS, THE

PRINCIPAL EXPORT OUTLET AND IMPORT SOURCE FOR THE
COUNTRIES, WHICH ALREADY HAVE, OR HAVE BEEN OFFERED,
ASSOCIATE STATUS.

(3) FOR THE LONGER TERM THE INDUSTRIAL DEVELOPMENT
OF THE ASSOCIATED STATES CAN BE FACIL
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